

PUBLIC-PRIVATE PARTNERSHIPS: WHAT WORKS? WHAT DOESN'T? WHAT'S NEXT?

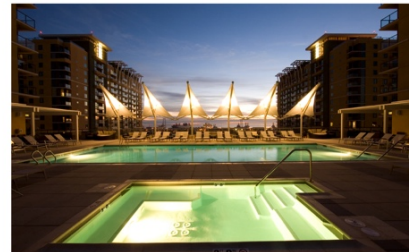
Lessons From The Military Housing Privatization Initiative 1996-2016



Fort Stewart, GA | 3-bedroom duplex



Fort Huachuca, AZ | Tot lot playground



Naval Base San Diego, CA | Single sailor housing



Fort Irwin, CA | 915-home community



Schofield Barracks, HI | Community center



Fort Belvoir, VA | 3- and 4-bedroom fiveplex

**Center for Strategic and International Studies
Washington, D. C.
October 18, 2016**

The Honorable Mahlon Apgar, IV
CSIS Senior Adviser
Former Assistant Secretary of the Army for Installations and Environment

**PUBLIC-PRIVATE PARTNERSHIPS:
WHAT WORKS? WHAT DOESN'T? WHAT'S NEXT?**

Lessons From The Military Housing Privatization Initiative 1996-2016

**Center for Strategic and International Studies
October 18, 2016**

The Honorable Mahlon Apgar, IV
CSIS Senior Adviser

Former Assistant Secretary of the Army for Installations and Environment

[Following Introduction by former Secretary of the Navy Richard J. Danzig]

Our subtitle is "Lessons from MHPI" through 20 years of innovation and investment. Innovation precedes investment in my list of Lessons because the MHPI program, while attracting billions of dollars in private capital for thousands of new and renovated homes, also has produced novel policies, technical innovations, and management reforms.

In this context, we set three objectives for today: first, to reframe the 1990s problem – an *underfunded* and *undermanaged* housing program – for this new era; second, to amplify what has worked – and has not worked -- in establishing and operating the housing partnerships; and third, to identify what new policy research would guide and underpin public-private partnerships (P3s) for other defense and civilian infrastructure needs. We hope you will take away at least one mission from this discussion: to seek new opportunities for P3s in DoD beyond military housing and to apply proven innovations in the face of DoD's daunting infrastructure recapitalization challenges and budget constraints.

First, some background, with data provided by the OASD-EI&E. When President Clinton's Secretary of Defense William Perry and Assistant Secretary Joshua Gotbaum proposed this transformative program, the Department faced a trifecta of problems: poor housing that diminished the quality-of-life for Service Members and their families; declining military recruiting and retention rates; and a \$16 Billion military housing maintenance deficit. This classic "burning platform" unified many stakeholders around a simple premise: that "private sector financing, expertise and innovation could provide housing faster and more efficiently (and, I would add, more effectively) than traditional Military Construction."

Scroll forward two decades and consider these compelling outcomes: the maintenance backlog has been cleared; quality family housing has been produced; a long-term financing, maintenance, management, and recapitalization system has been installed; and safe, supportive family communities are again a reason to reenlist. Sixteen developers have raised nearly \$25 Billion to leverage some \$3 Billion of public investment – a "budget multiplier" of more than 7 to 1 – producing over 200,000 new or renovated family houses across 163 installations, with energy-saving features,

community and recreational enhancements, and faster, better maintenance. Here are three examples of family housing units, "Before and After" MHPI.

4 units of Army Family Housing, Fort Benning, Georgia.



3-bedroom duplex of Army Family Housing, Fort Belvoir, Virginia.



3- and 4-bedroom duplex, US Marine Corps Family Housing, Quantico, Virginia.



Tenant satisfaction rates in MHPI communities approach 90 percent and may be a landmark in U.S. government-sponsored housing. Ninety-nine percent of DoD's U.S. family housing is now in the care of committed, efficient, high-quality developer-managers, and limited resources have been released for more pressing military needs.

The Army has extended the same legislative authorities and business concepts to clear a \$1 Billion revitalization backlog in its transient lodging, and plans more than 12,000 new and renovated rooms without any Army investment or guarantees. (*See below*).

500 Guest Suites in two Army Lodging buildings, Fort Hood, Texas.

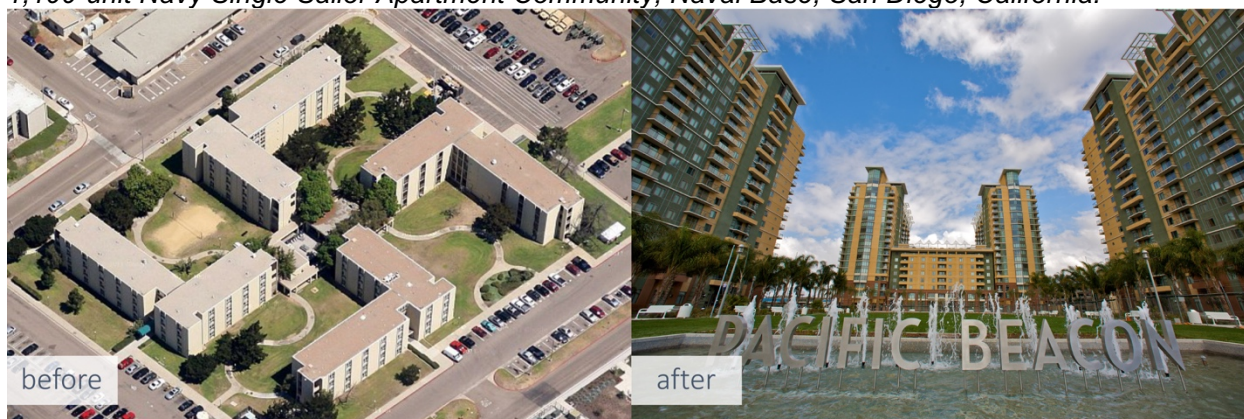


The Army also has used MHPI authorities to build nearly 1,600 single soldier apartments in five projects, while the Navy has privatized two large single sailor housing projects with over 6,000 bedrooms. (See below).

432-unit Army Single NCO Apartment Community, Fort Meade, Maryland.



1,199-unit Navy Single Sailor Apartment Community, Naval Base, San Diego, California.



To help interpret these outcomes, here are ten lessons I have drawn from the MHPI experience and their implications for defense reform. We hope that today's Panel will amplify these and propose adaptations beyond housing to meet other defense needs.

Lesson one: *Mandates empower risk-takers.* At my Confirmation Hearing in 1998, Senator John Warner, in his role as the Senate Armed Services Committee's Vice Chairman, said, "I'm not going to ask you any questions, but I want you to assure this Committee that you will 'fix Army Housing'". In other words, "whatever it takes, you must correct this intolerable situation -- and we don't want to see you again until you do." For a political neophyte in a public spotlight, this was heart-stopping – but as Congressman Edwards will attest, I invoked this mandate frequently during the next few years as we met organizational resistance, tackled policy and technical problems, and pursued the "art of the possible" with a clear sense of mission. The lesson: controversial, innovative programs must have sufficient high-level weight to withstand the inevitable obstacles they face and the personal risks their officials bear.

Lesson two: *Partnerships foster solutions.* General Jack Keane and I rebranded the Army program from "privatization" to "partnerships". Privatization connotes asset sales by the government to outsiders – anathema to both civilian officials and military officers who feared losing control. But business partnerships mean collaboration, trust, accountability, and shared risks. MHPI partners are incentivized to collaborate throughout the development process. They meet frequently, work joint agendas, and dedicate their teams to solving problems, from the practical, such as building bike paths, to policy, such as changing project scope when budget decisions reduce housing allowances. Perhaps most important, the business partners have embraced the military mission. As one said, "don't underestimate our commitment to the mission. While many of us have not served in the military, we put ourselves in the shoes of Service families to do whatever we can to improve their quality of life".

The third Lesson is: *Economics ground partnerships.* An Army historian, concurrent with my appointment, wrote, "the simplest way to produce affordable, well-built, well-maintained housing without the fear that private developers were making undue profits was to build it with appropriated funds." This official overlooked the reality that there were not then, are not now, and likely never will be appropriated funds in sufficient *amounts*, with sufficient *predictability*, to make long-term policy and business decisions in housing and other non-core defense infrastructure facilities and services. MHPI also has proved that substantial savings over Military Construction (MilCon) funding can be achieved through the long-term horizons, streamlined procurement, lifecycle models, and operating efficiencies of these military community project teams.

The fourth lesson is: *Ingenuity leverages capital.* Real estate capital today is plentiful, fungible and global – but communities are not. A new book, "America the Ingenious", posits that this Nation is the perfect breeding ground for innovation and invention. In MHPI, ingenuity has become the equity for numerous innovations. Clark has pioneered mixed-use retail and residential projects, green building materials, beautiful community centers, special-purpose Wounded Warrior homes, and a host of popular social programs. Corvias has aggregated its 35,000 military house portfolio to revolutionize purchasing in the highly fragmented property management industry, thereby strengthening the small business supply chain and local economies around its bases. Others have demonstrated sustainable energy and modular construction techniques. Because DoD is not a skilled marketer and cannot lobby on its own behalf, many ingenious innovations such as these are unknown outside small defense and real estate circles. We must change this situation with evidence from MHPI to spawn and buttress

other infrastructure applications in DoD -- and beyond.

Town Center (80,000 SF), Fort Belvoir, Virginia.



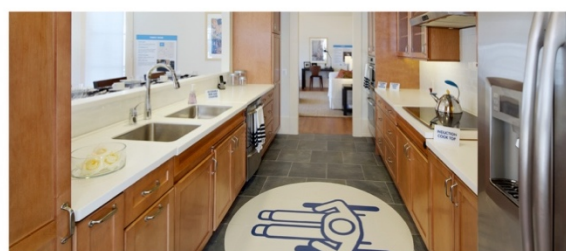
Town Center Streetscape, Fort Irwin, California.



Wounded Warrior Home Project, Fort Belvoir, Virginia.



Inviting exterior façade with accessible on-grade entrance



Mechanized counters that raise and lower and cool-to-touch cooktop



Sliding doors without raised thresholds and spacious floorplans accommodate wheelchair turning radius and PT exercises



Market-rate home aesthetic with vinyl plank flooring practical for wheelchairs and maintains better than carpet

TECHNICAL



Developing Pilot Homes



Commitment to Sustainability

PROCESS



Comprehensive Resident Programming



Neighborhood-Level Management

FEATURE



Wounded Warrior Home Project



Fort Belvoir Town Center

The fifth lesson is: Analytics promote outcomes. One of MHPI's tenets was collecting, analyzing and reporting outcome-driven metrics. In assessing the private partners' performance, the Army retained Jones Lang LaSalle, a premier real estate consulting firm, to emulate and adapt the analytics practiced by institutional

investors and their development partners. You've already seen results of improved service, faster response times, and lower costs from their 20-year archive. Yet for six years, the Resident Satisfaction Survey was suspended for lack of funding because one vendor protested a competitive award. Can you imagine a business suspending a key part of its data collection and analysis because a competitor complained? Although that case was settled and the Survey was resumed, the six-year gap in DoD's data remains.

Other critical program outcomes such as job creation – at least 200,000 new jobs by one count -- have not been systematically measured. As we ponder the next chapter in defense infrastructure partnerships, robust data and analytics must be high on the list.

Sixth: Design drives quality of life. A significant, but little known, MHPI innovation is the introduction of "New Urbanism" in MHPI projects to restore the traditional look and feel of 18th and 19th Century posts like Fort Belvoir, Virginia, Fort Riley, Kansas, Fort Sam Houston, Texas, and dozens of others. A major feature of this design strategy is walkable neighborhoods to reinforce residents' relationships and encourage personal fitness, with accessible amenities such as green spaces, playgrounds and tot lots, biking and walking trails, and community centers. The strategy is brought to life in the Family Housing community at Fort Belvoir. (See below).

Army Family Housing, Fort Belvoir, Virginia. New Urbanism architecture, pedestrian connections.



Army MHPI projects have won over 100 industry and professional awards, including the Urban Land Institute's coveted Award for Excellence. The "Cooling Tower" on Fort Irwin, California, shows the synthesis of technical ingenuity and design that marks MHPI.

Low-energy cooling tower on Fort Irwin, California.



3- and 4-bedroom triplex; Air Force Family Housing, Joint Base Andrews, Maryland.



Surveys confirm that Service Members and their families prefer the styles that reflect the comfort and support of traditional posts and emulate the offerings they find in civilian communities outside the gate. Note the design comparison below. The MHPI developers and their designers listen to their Service Members and produce the features they prefer. The lesson is that the design of military communities is not solely the province of designers but is inclusive and interactive.

4-bedroom single family home, Fort Belvoir, VA.



4-bedroom single family home, Silver Spring, MD.



Fort Belvoir Town Center: mixed use retail residential units, welcome center.

The seventh lesson: *"Inherently governmental" impedes innovation.* Before MHPI, military housing was defined as "inherently governmental" – that is, a function "so intimately related to the public interest as to require performance by Federal Government employees" and, specifically, "not performed by contractors." The ensuing regulations for housing were voluminous and diverted commanders' attention to complaints about housing wait-lists and plumbing problems. When we reversed the



Fort Irwin, California: green spaces, playgrounds, tot lots.

basic logic and showed that private developers could produce and manage family housing, with ancillary facilities, in less time at lower cost than the heavily layered government program, the foundations for public-private partnerships were laid. Partners not only provide and manage the housing but, increasingly, the neighborhood shopping, common area facilities, and recreational and social programs that are essential to communities everywhere. You have seen the high customer satisfaction rates. Which other infrastructure functions could be redefined in this manner?

Lesson eight: *Policy relies on bipartisanship and buy-in.* MHPI was a lesson in party politics. I naively assumed that by enlisting a large business sector in a defense support program, we would automatically receive Republican support, though possibly lose some Democrats. Yet it was Texas Democratic Congressman Chet Edwards and his Democratic colleagues who saved the program -- and me! -- by winning over the Subcommittee's Republican Chair, with heavy support from former Army Undersecretary Bernard Rostker. Within DoD, the Services differed markedly -- from the Army, where General Keane championed the new authorities and led a game-changing attack to transform its housing management philosophy, to the Air Force, which already had better housing and initially relied on its established contracting methodology. Although the Air Force subsequently supported MHPI, it has not embraced public-private partnerships as fully as have the Army and Navy.

Lesson nine: *Flexibility enables responsiveness.* The paramount advantage of MHPI is the flexibility it offers to developers and military partners to be agile and responsive. Within the vision, mission and objectives that are jointly agreed for each project, private partners can change the program scope quickly and efficiently to meet new conditions and pursue unforeseen opportunities. For example, before MHPI, Army Engineers at Fort Hood had issued an RFP with detailed specifications to demolish and reconstruct a large tract of antiquated housing. But the private partners concluded that they could repurpose and renovate those units in less time, at twenty-five percent less cost, than the RFP prescribed. It would have taken Herculean effort and many months to work through a change order, causing further delay and possibly derailing the project. In effect, MHPI -- and the associated RFQ selection process -- liberated the partners to do what they do best. The outcome: these units are among the most popular on the post.

Finally, Lesson ten: *Pilot tests provide a path toward innovation.* After the 1996 legislation was enacted, the Services struggled to launch MHPI, partly because they weren't strategic in setting priorities or pragmatic in deploying the new tools. To jump-start the Army program, we set up a pilot program at four posts representing different regions, market conditions and Congressional politics: Fort Lewis, Washington; Fort Carson, Colorado; Fort Hood, Texas and Fort Meade, Maryland. Importantly, each had a supportive Congressional sponsor who was willing to take the start-up risks. This was a classic military and entrepreneurial strategy, sized and positioned to attract the best

developers with the vision and resources to carry it out. If one or even two of the four pilot locations failed, they could have been collapsed or merged; in the end, the assets would revert to government ownership and the remaining pilots would survive as "proofs of concept". But if all succeeded, as they have, then the program likely would survive the transition from the Clinton Administration to the next and beyond, as it has.

* * * *

Former White House, Defense and GSA official Dorothy Robyn has called MHPI "wildly successful." Despite a system that often is driven by short-term horizons and year-to-year budgeting, MHPI has illuminated the fiscal promise of long-term planning and the operational value of creative business practices. These public-private partnerships demonstrate stable financing, responsible entrepreneurship, and accountable management. Yet, as with many DoD initiatives, some in the Military Services, Defense Agencies, the Office of Management and Budget, and Congress, overlook or question its achievements and are now forestalling future applications, with similar criticisms to those levied against MHPI in the 1990s – which have been overcome.

I hope this personal view of ten lessons through 20 years provides some grist for the key issue we are here to address: *How should DoD build on the successes of MHPI in meeting other needs for defense infrastructure to support the American warfighter?* In framing this discussion, we asked "What's Next?" Because the military is a doctrine-driven institution, I suggest that it is timely to begin with a new doctrine for defense infrastructure which might read: "Any defense function, facility or service that is mirrored by an active private market with at least three major competitors is assumed to be a candidate for privatization, outsourcing or public-private partnerships. Only 'inherently governmental functions' that are not mirrored in, and actively competed in, the private sector should be exempt from this doctrine. The burden of proof will be on the Military Services and Defense Agencies to justify why they should not outsource, privatize or partner existing business functions that meet this basic private market test to support the American warfighter."

DoD has substantial capacity for new public-private partnerships under this doctrine. Its real property portfolio – over *three billion square feet* valued at more than *one trillion dollars* -- includes underutilized office and administrative space, warehousing and logistics facilities, and other fungible assets that are actively developed and managed in the private sector and are not uniquely military. If the Department could monetize the same proportion of its property assets as major American companies have achieved in recent years, it would save or redeploy significant human and financial resources.

Beyond domestic analogues, a look abroad reveals how military initiatives have recapitalized and improved other nations' defense infrastructure. The U.K. has focused on consolidating and repurposing garrisons to benefit regional economies; while Canada has pursued a robust P3 strategy at both the national and provincial levels for a full range of government functions, including education, health, recreation and transportation, as well as defense. While the scale of U.S. defense policies and operations may overshadow such foreign examples, most of their lessons and institutional innovations would be applicable under the U.S. doctrine proposed above.

These and many other ideas will inform the policy research agenda we envision.